

December 5, 2003

Honorable Mayor
and Members of the City Council
City of Grosse Pointe Farms
90 Kerby Road
Grosse Pointe Farms, MI 48236

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Grosse Pointe Farms for the year ended June 30, 2003. We offer the following items of an informational nature for your consideration as the policy making body of the City:

GASB 34 – New Reporting Model

As mentioned in previous years, the Governmental Accounting Standards Board (GASB) has issued a new financial reporting model for governmental entities. This new reporting model was designed to provide improved comparability between governmental entities and a more balanced prospective between current and long-term financial resources. Tom Allen, Chairman of the GASB stated, "This is the most significant change to occur in the history of governmental financial reporting."

To comply with the provisions of this new reporting model, certain long-term capital assets not previously accounted for by communities are required to be inventoried, valued and depreciated. This information is used in the preparation of several new financial statements reflecting a community's "net assets." Other notable changes include significant revision of most financial statement disclosures and a new summary letter referred to as "Management's Discussion and Analysis."

Since the release of this new model four years ago, all communities have struggled with preparing a plan for its implementation. Although the GASB clearly indicated what information was required, they were less specific on how best to obtain it. In addition, many other aspects of the pronouncement required further guidance or elaboration.

We wish to congratulate the City Council and the Finance Department for having successfully accomplished this challenging task.

State Shared Revenue

The City has and will continue to feel the effects of the slowdown in the State's economy. State shared revenue accounts for approximately 8% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax, revenue sharing payments continue to decline. Currently, the approved budget for the State's 2003/2004 fiscal year includes another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels.

The State's 2003/2004 budget is contingent on significant assumptions and legislative actions which may or may not be realized. Also, by all accounts, the State has longer term structural problems with its budget that have not been solved yet. These problems were illustrated at an impromptu consensus revenue estimating conference on October 14, 2003, where the State announced that they have an unplanned shortfall of \$900 million for the year ended September 30, 2004. The State is reviewing its options regarding how to solve the shortfall, leaving revenue sharing at considerable risk. The City has anticipated the State's budget struggles and has planned for a reduction in state shared revenue by setting aside in its fiscal year 2003-2004 budget, a contingency for a reduction in state shared revenues of 2.5 per cent over and above the 3 per cent reduction mentioned above.

We will continue to update the City as developments occur.

Implementation of Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit

The auditing profession has responded to the current environment of higher risks of fraudulent activities with a new auditing standard. Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS 99), Consideration of Fraud in a Financial Statement Audit, requires additional audit procedures addressing the risk of fraud in an organization. Our overall responsibility under the new standard has not changed - the auditor's responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud. The new standard does, however, require us to perform new and different auditing procedures that we have not done in the past. Our consideration of the possibility of fraud will be integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address how and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur, how management could perpetrate and conceal fraud and how assets of the client could be misappropriated by management or employees.

SAS 99 requires auditors to make an inquiry of management regarding their awareness and understanding of fraud, fraud risks and steps taken to mitigate risks and to also make inquiries to others within the entity, including board members, non-financial administrators and non-management personnel not directly involved in the financial reporting process, regarding the existence or suspicion of fraud and the individual's views about the risks of fraud within the entity.

Please feel free to contact us to discuss any questions you may have regarding this new process. Thank you in advance for your understanding and cooperation with implementing these changes.

ACH Arrangements

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted. The City Council should consider adopting a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for approving payment, accounting, reporting and complying with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - Describes the goods or services purchased,
 - The cost,
 - Date of payment, and
 - The department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

New Homestead Audit Program

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming more than one primary residence. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one primary residence for property tax purposes. A residence which is not an individual's primary residence pays property tax at the non-homestead rate. Local units that participate with the State in sharing homestead information will receive a percentage of the interest charged to property owners on taxes due,

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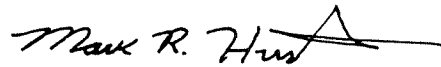
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as a result of the claiming more than one primary residence. The Michigan Department of Treasury will publish additional guidance related to this new law.

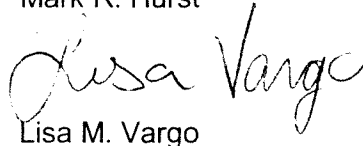
We have also written a separate communication to the City's audit committee, which covers more detailed accounting items, such as our audit responsibilities, accounting policies and the use of estimates in the financial statements. We would like to thank the City for the courtesy and cooperation extended to us during this audit. We would be happy to answer any questions you may have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Lisa M. Vargo